

PERAC AUDIT REPORT



Adams Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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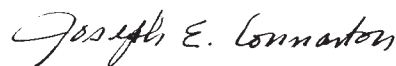
July 20, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Adams Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Investment Management:

The investment selection of the American Funds EuroPacific Growth Fund - Class R3 was entered into and funded without a competitive process or any other regulatory action. This violates PERAC's investment regulatory requirements that a Request for Proposal must be used and managers be chosen as a result of a competitive process.

Recommendation: All new investment managers must be selected using a competitive process. The Adams Retirement Board must follow PERAC's Investment Regulations (840 CMR 16.08: Procurement of Investment Related Services). It is recommended that the Adams Retirement Board review its Request For Proposal (RFP) procedures. PERAC's Investment Director's memo dated March 7, 2005 entitled 'Overview of Investment Regulation Issues' is an excellent source of information relative to investment regulations.

Board Response:

This topic has been discussed thoroughly by the Adams Retirement Board, including a personal meeting with Robert Dennis from PERAC and the Board's Investment Manager – Boston Private Value Investors. Both the Adams Retirement Board and Boston Private Value Investors were both unaware that an RFP needed to be done for any change in an asset class. In the future, any change in an asset class that may require a different manager, will be sent to Robert Dennis at PERAC to determine if a competitive process needs to be taken.

Payroll:

Based on inspection and inquiry, it was determined that the Adams Retirement System lacks a uniform method of correctly receiving information from the member units for retirement deductions. The Adams Retirement System receives retirement deductions from five (5) governmental units. The payroll detail is not submitted with the retirement deductions that are withheld for the Board Administrator to review the accuracy of the deductions.

Recommendation: Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32 § 22(1) (h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.

Board Response:

All Government Units that are members of the Adams Retirement System have changed their reports to give more detailed information. Payroll Details are now being submitted on a monthly basis for the bigger units (the School District had already submitted a payroll detail), and twice a year for Adams Housing Authority, which has only 4 members. These reports are consistent with G.L. c. 32 § 22(1) (h).

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Contribution Rates:

A sample of contribution rates and 2% over \$30,000 calculations revealed errors that need correction.

Recommendation: Membership records should be reviewed and corrected by the Board Administrator. This review should include the 2% over \$30,000 contributions.

Board Response:

The errors in this area were from the Adams/Cheshire Regional School District. These errors were caused from a new Payroll System and a change in the Payroll Department. The new Payroll Clerk was made aware of the 2% withholding errors, checked all employee records, and has corrected the payroll.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2005	2004	2003
Net Assets Available For Benefits:			
Cash	\$5,189,668	\$943,290	\$2,066,146
Short Term Investments	996,389	4,042,872	4,584,144
Fixed Income Securities	7,998,416	7,841,719	7,277,245
Equities	8,647,675	8,246,903	7,137,633
Interest Due and Accrued	87,358	76,740	63,865
Accounts Receivable	327,216	894,763	40,667
Accounts Payable	0	0	(441,107)
Total	<u>\$23,246,723</u>	<u>\$22,046,287</u>	<u>\$20,728,592</u>
Fund Balances:			
Annuity Savings Fund	\$5,039,982	\$4,625,778	\$4,260,460
Annuity Reserve Fund	1,657,625	1,769,746	1,917,933
Pension Fund	2,525,179	2,624,615	2,907,072
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	14,023,938	13,026,148	11,643,129
Total	<u>\$23,246,723</u>	<u>\$22,046,287</u>	<u>\$20,728,592</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$4,252,926	\$1,683,587	\$3,084,408	\$0	\$0	\$9,629,142	\$18,650,063
Receipts	525,285	50,464	1,039,015	0	150,164	2,027,951	3,792,880
Inter Fund Transfers	(383,833)	397,798	0	0	0	(13,965)	0
Disbursements	(133,918)	(213,917)	(1,216,351)	0	(150,164)	0	(1,714,350)
Ending Balance (2003)	4,260,460	1,917,933	2,907,072	0	0	11,643,129	20,728,592
Receipts	497,620	54,546	1,015,166	0	151,652	1,383,019	3,102,003
Inter Fund Transfers	(46,868)	46,868	0	0	0	0	0
Disbursements	(85,433)	(249,601)	(1,297,622)	0	(151,652)	0	(1,784,309)
Ending Balance (2004)	4,625,778	1,769,746	2,624,615	0	0	13,026,148	22,046,287
Receipts	588,417	50,273	1,078,592	0	163,924	997,790	2,878,995
Inter Fund Transfers	(41,403)	41,403	0	0	0	0	0
Disbursements	(132,811)	(203,796)	(1,178,028)	0	(163,924)	0	(1,678,559)
Ending Balance (2005)	<u>\$5,039,982</u>	<u>\$1,657,625</u>	<u>\$2,525,179</u>	<u>\$0</u>	<u>\$0</u>	<u>\$14,023,938</u>	<u>\$23,246,723</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$496,890	\$464,336	\$453,606
Transfers from Other Systems	60,111	2,406	21,763
Member Make Up Payments and Re-deposits	4,676	6,089	11,397
Investment Income Credited to Member Accounts	<u>26,739</u>	<u>24,789</u>	<u>38,519</u>
Sub Total	<u>588,417</u>	<u>497,620</u>	<u>525,285</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>50,273</u>	<u>54,546</u>	<u>50,464</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	20,871	13,388	17,155
Received from Commonwealth for COLA and Survivor Benefits	71,751	51,989	71,069
Pension Fund Appropriation	<u>985,970</u>	<u>949,788</u>	<u>950,791</u>
Sub Total	<u>1,078,592</u>	<u>1,015,166</u>	<u>1,039,015</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>163,924</u>	<u>151,652</u>	<u>150,164</u>
Sub Total	<u>163,924</u>	<u>151,652</u>	<u>150,164</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	53,953	50,178	40,651
Interest Not Refunded	142	696	1,309
Excess Investment Income	<u>943,695</u>	<u>1,332,146</u>	<u>1,985,992</u>
Sub Total	<u>997,790</u>	<u>1,383,019</u>	<u>2,027,951</u>
Total Receipts	<u>\$2,878,995</u>	<u>\$3,102,003</u>	<u>\$3,792,880</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$43,869	\$72,924	\$58,213
Transfers to Other Systems	<u>88,942</u>	<u>12,510</u>	<u>75,705</u>
Sub Total	<u>132,811</u>	<u>85,433</u>	<u>133,918</u>
Annuity Reserve Fund:			
Annuities Paid	203,796	249,601	213,917
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>203,796</u>	<u>249,601</u>	<u>213,917</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	939,906	984,381	954,882
Survivorship Payments	75,260	119,680	86,791
Ordinary Disability Payments	36,448	36,314	44,153
Accidental Disability Payments	75,665	84,851	83,411
Accidental Death Payments	12,459	12,100	11,747
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	<u>38,291</u>	<u>60,297</u>	<u>35,367</u>
Sub Total	<u>1,178,028</u>	<u>1,297,622</u>	<u>1,216,351</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	12,000	12,000	12,000
Salaries	37,179	38,083	35,072
Legal Expenses	0	0	820
Travel Expenses	245	928	1,344
Administrative Expenses	13,233	13,794	21,716
Furniture and Equipment	0	1,700	471
Management Fees	59,497	53,903	48,119
Custodial Fees	19,510	19,272	17,675
Rent Expenses	1,800	1,800	1,800
Service Contracts	18,846	8,840	7,754
Fiduciary Insurance	<u>1,613</u>	<u>1,332</u>	<u>3,392</u>
Sub Total	<u>163,924</u>	<u>151,652</u>	<u>150,164</u>
Total Disbursements	<u>\$1,678,559</u>	<u>\$1,784,309</u>	<u>\$1,714,350</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$34,784	\$48,008	\$18,718
Short Term Investments	101,113	1,634	19,191
Fixed Income	374,731	343,325	411,548
Equities	144,482	119,214	151,157
Pooled or Mutual Funds	0	0	0
Commission Recapture	0	0	0
Total Investment Income	<u>655,110</u>	<u>512,181</u>	<u>600,614</u>
Plus:			
Realized Gains	175,548	233,290	462,836
Unrealized Gains	1,033,419	1,211,775	1,610,306
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>87,358</u>	<u>76,740</u>	<u>63,865</u>
Sub Total	<u>1,296,325</u>	<u>1,521,805</u>	<u>2,137,006</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(7,547)	(16,963)	(7,376)
Realized Loss	(203,947)	(244,453)	(310,012)
Unrealized Loss	(478,569)	(145,572)	(111,965)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(76,740)</u>	<u>(63,865)</u>	<u>(83,128)</u>
Sub Total	<u>(766,804)</u>	<u>(470,853)</u>	<u>(512,481)</u>
Net Investment Income	<u>1,184,631</u>	<u>1,563,133</u>	<u>2,225,139</u>
Income Required:			
Annuity Savings Fund	26,739	24,789	38,519
Annuity Reserve Fund	50,273	54,546	50,464
Expense Fund	163,924	151,652	150,164
Military Service Fund	0	0	0
Total Income Required	<u>240,936</u>	<u>230,988</u>	<u>239,148</u>
Net Investment Income	<u>1,184,631</u>	<u>1,563,133</u>	<u>2,225,139</u>
Less: Total Income Required	<u>240,936</u>	<u>230,988</u>	<u>239,148</u>
Excess Income To The Pension Reserve Fund	<u>\$943,695</u>	<u>\$1,332,146</u>	<u>\$1,985,992</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$5,189,668	22.7%	100%
Short Term	996,389	4.4%	100%
Fixed Income	7,998,416	35.0%	35 - 80%
Equities	8,647,675	37.9%	65%
Grand Total	<u>\$22,832,149</u>	<u>100.0%</u>	100%

For the year ending December 31, 2005, the rate of return for the investments of the Adams Retirement System was 5.55%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Adams Retirement System averaged 5.48%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Adams Retirement System was 9.47%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Adams Retirement System does not have any supplementary investment regulations on file.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Adams Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Adams Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 16, 2003

Employee Coverage.

1. Approval: All travel and related expenses must be approved by the Board in advance of the travel. Requests for travel by employees shall be placed on a Board meeting agenda, discussed in open session and approved by a majority of the Members of the Board present and voting. The nature of the Travel, its purpose and estimated cost shall be outlined on the request form. Brochures for seminars or other presentations should accompany the request for travel where available. The Chairman of the Board may approve travel by employees to seminars and/or meetings that involve no overnight stays.
2. Use of Personal Vehicles: All employees required to use a personal vehicle in the course of Board business will be compensated at a rate as established by the Internal Revenue Service for the Business Use of Vehicles (\$.365 per mile for 2002) in addition to any tolls or parking fees as required. When using automated toll systems (i.e., Fast Lane), employees may submit for reimbursement without receipts but must include a statement of appropriateness of travel.
3. Public Conveyances: Employees will be reimbursed for the actual cost of travel by public conveyances (airline, train, bus, automobile rental, taxi, or other forms of public conveyance (as cost effective) to be utilized.

All travel shall be at the lowest fare available, generally economy/coach fare. The Board may determine that certain routing criteria are to be implemented, for example, requiring no more than one interim stop each way; not requiring more than one scheduled airplane transfer each way, and allowing for reasonable departure and arrival times. Payments to or for airline club memberships or other like memberships is prohibited.

October 2, 2002

Definitions.

Full Time Service – Service while an employee having established hours of work consisting of a minimum of 30 hours per week for 36 weeks per year.

Part Time Service – Service while an employee having established hours of work consisting of less than 30 hours per week for 36 weeks per year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

June 6, 2002

Buy Backs

Active Members may buy back regular full time, regular part time, provisional full time, provisional part time, temporary full time, temporary part time, and seasonal full time or seasonal part time service.

Inactive Members may buy back regular full time and regular part time service.

Active Members may make lump-sum payments or weekly payroll deductions of not less than twenty dollars (\$20.00) per week. Interest due will be recalculated during the month of January and the member will be notified of the change. At no time shall the length of time allowed for payroll deductions exceed five (5) years. The buyback of service must be completed prior to retirement ...

Inactive members must make lump-sum payments.

Creditable Service

The Board will accept liability on a prior member for only full time and part time regular service.

Definitions

Full Time Service – Service while an employee having established hours of work consisting of a minimum of 35 hours per week for 52 weeks per year.

Part Time Service – Service while an employee having established hours of work consisting of less than 30 hours per week for 52 weeks per year.

Regular Service – Service while an employee that is appointed for a fixed period of time with a reasonable expectation of reappointment for continuing periods of time.

Temporary Service – Service while an employee that is appointed for a fixed period of time, not to exceed 8 months to replace employees who might be absent for extended periods.

Seasonal Service – Service while an employee that is appointed for a fixed period of time due to conditions caused by increased workload.

Provisional Service – Service while an employee that is appointed through a noncompetitive process to a position for a time to prevent stoppage of public business or hazard or serious inconvenience to the public.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 12, 2001

Board Pay.

To receive compensation under MGL Chapter 32 Section 20 Paragraph 6, board members must attend the monthly board meetings. Failure to attend meetings will be grounds for forfeiture of monthly stipend for that month. Board members may receive compensation when their absences are excused by a vote of the Board for the following reasons:

- a. work conflict,
- b. illness of board member or immediate family,
- c. vacation.

In order for the Board to grant an excused absence, the Board's Administrative Assistant or Chairman must be notified of the absence prior to the scheduled time of the meeting. The Board may grant an excused absence if notification is not received under extenuating circumstances. Generally, board members will be granted only one (1) excused absence per calendar quarter, but may request more. The Board may, at its sole discretion, grant additional excused absences. The Board may refuse to grant an excused absence if the Board determines that the board member has a history of non-attendance or flagrant abuse of excused absences. This supplemental rule provides rules on receipt of the retirement board stipend and is consistent with the provisions of G.L. c. 32.

August 31, 1987

Membership.

1. Full time permanent employees who work at least 35 hours per week and are under age 65 shall join the retirement system as of their date of employment.
2. Employees who work at least 20 but less than 35 hours per week must join within 6 months of their date of employment but may join at an earlier date at the discretion of the board.
3. Appointed officials who receive compensation of at least \$5,000 per year may join within 90 days of each appointment.
4. Elected officials who receive compensation may join within 90 days of each election.
5. Temporary employees, employees who are normally scheduled to work less than 20 hours per week, and appointed officials who receive compensation of less than \$5,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

6. The Board shall have full jurisdiction to determine the eligibility of employees for membership in all cases involving part time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service.
7. Every employee who becomes a member of the Adams Retirement System must complete the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment, he/she must also furnish the Board with a long form birth certificate, and if a veteran, a copy of his/her Discharge of Military Service or equivalent which shall be kept on file by the Board.

August 31, 1987

Creditable Service

1. Members who work at least 7 continuous months per year shall be credited with one year of service for each year worked.
2. Members who work less than 7 continuous months shall be credited on a prorated basis. For every 150 hours or portion thereof worked in a calendar year, a member shall receive credit for one month of service to a maximum of 12 months.
3. Members who are elected officials shall be credited with one year of service for any time served within the calendar year.
4. Members who are appointed/salaried employees shall be credited with service in accordance with their salary schedule.
5. Members shall be credited with one month of service to a maximum of 60 months for each month which a reserve or permanent intermittent police officer was on his/her respective list and was eligible for assignment to duty subsequent to his/her appointment, as consistent with Chapter 32, s. 4 (2) (b).
6. Members who were full time employees who became part time or members who were part time employees who became full time shall have their part time service credited in the same manner as employees who work less than 7 continuous months.
7. Approved unpaid leaves of absence of not more than 30 days per calendar year shall not affect creditable service. Unapproved unpaid leaves of absence or approved unpaid leaves of absence in excess of 30 days per calendar year shall decrease creditable service for a like period.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 31, 1987

Continuation of Membership

- I. An employee, appointed official, or elected official who is presently a member of the system who would no longer be eligible for initial membership may at the member's option, continue membership. Service will be credited in accordance with the rules established under the section entitled "Creditable Service".

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Mary A. Beverly

Appointed Member: Allen J. Mendel Term Expires: 7/1/09

Elected Member: David M. Clark Term Expires: 7/1/07

Elected Member: Francis J. Wojtaszek Term Expires: 7/1/07

Appointed Member: Bernard A. Pinsonnault Term Expires: 7/1/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	Fiduciary \$50,000,000
Elected Member:)	Fidelity (ERISA) Bond \$1,000,000
Appointed Member:)	Travelers Insurance
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2006.

The actuarial liability for active members was	\$13,551,496
The actuarial liability for retired members was	<u>12,583,693</u>
The total actuarial liability was	26,135,189
System assets as of that date were	<u>23,708,446</u>
The unfunded actuarial liability was	<u>\$2,426,743</u>
 The ratio of system's assets to total actuarial liability was	 90.7%
As of that date the total covered employee payroll was	\$5,789,937

The normal cost for employees on that date was 8.14% of payroll

The normal cost for the employer was 5.51% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Service based table with ultimate rates of 4.75%, 5.00% and 5.25% for groups 1, 2, and 4 respectively.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$ 23,708,446	\$ 26,135,189	\$ 2,426,743	90.7%	\$ 5,789,937	41.9%
1/1/2004	\$ 20,490,444	\$ 24,223,089	\$ 3,732,645	84.6%	\$ 5,243,758	71.2%
1/1/2002	\$ 17,711,168	\$ 21,606,650	\$ 3,895,482	82.0%	\$ 5,432,384	71.7%
1/1/2000	\$ 15,180,405	\$ 18,709,876	\$ 3,529,471	81.1%	\$ 4,675,545	75.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	4	3	3	2	0	6	8	3	4	1
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	1	0	1	0	0	0	0	0	0	0
Total Retirements	5	4	4	2	0	6	8	3	4	1
Total Retirees, Beneficiaries and Survivors	139	135	136	141	143	144	145	150	149	144
Total Active Members	184	187	225	237	237	255	257	220	228	225
Pension Payments										
Superannuation	\$580,783	\$576,765	\$801,992	\$623,194	\$693,052	\$727,901	\$776,392	\$954,882	\$984,381	\$939,906
Survivor/Beneficiary Payments	72,655	71,254	0	80,207	78,894	79,281	77,069	86,791	119,680	75,260
Ordinary Disability	23,475	24,156	0	45,951	40,278	41,194	42,358	44,153	36,314	36,448
Accidental Disability	49,255	62,103	0	84,566	78,854	79,855	95,648	83,411	84,851	75,665
Other	<u>60,625</u>	<u>61,075</u>	<u>37,983</u>	<u>49,855</u>	<u>56,020</u>	<u>54,695</u>	<u>60,995</u>	<u>47,115</u>	<u>72,397</u>	<u>50,749</u>
Total Payments for Year	<u>\$786,793</u>	<u>\$795,353</u>	<u>\$839,975</u>	<u>\$883,773</u>	<u>\$947,099</u>	<u>\$982,928</u>	<u>\$1,052,463</u>	<u>\$1,216,351</u>	<u>\$1,297,622</u>	<u>\$1,178,028</u>

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